

2002

Employer Child Care Program/ Contribution Credit

3501

Attach to your California tax return.

Social security, California corporation no., or FEIN

Name(s) as shown on return

Secretary of State (SOS) File Number

Part I Employer Child Care Program Credit. Read the instructions before completing this part.**Section A**

1 Number of children the child care facility(ies) will legally accommodate (no minimum number required) 1

Section B — Credit Computation

2 Enter the amount of costs paid or incurred for startup expenses of establishing a child care program or constructing a child care facility in California to be used primarily by the children of either your employees or your tenant's employees, or both. See General Information, Part I, C, Definition of Startup Expenses 2

3 Enter the amount of costs paid or incurred this year for contributions to California child care information and referral services. See General Information, Part I, B, Qualifications 3

4 Add line 2 and line 3 4

5 Multiply line 4 by 30% (.30) 5

6 Pass-through credit(s) from Schedule(s) K-1 (100S, 541, 565, or 568) 6

7 Add line 5 and line 6. Do not enter more than \$50,000 (any amount in excess of \$50,000 may not be claimed or carried over). **S corporations:** Go to line 8. **All others:** Skip line 8 and go to line 9 7

8 S corporations: Enter 1/3 of the amount on line 7. Do not enter more than \$16,667 8

9 Credit carryover from prior year 9

10 Tentative Credit. **S corporations:** Add line 8 and line 9. **All others:** Add line 7 and line 9 10

11 Total available credit. Enter the smaller of the amount on line 10 or \$50,000 (any excess can be carried over) 11

12 Enter amount of credit claimed (may be limited) on the current year tax return. See General Information, Part I, D, Limitations 12

13 Subtract line 12 from line 11 13

14 Excess available credit. Subtract line 11 from line 10. If less than zero, enter -0- 14

15 Credit carryover available for future years. Add line 13 and line 14 15

Section C — Credit Recapture (for the Employer Child Care Program Credit). See General Information, Part I, E, Recapture

(a)	(b)	(c)
Total credit claimed for all years	Proration percentage: (60 months less number of months facility operated) ÷ 60 months	Credit recapture amount, column (a) x column (b)
16		

Include the amount on line 16, column (c), in the total on: Form 540, line 36; Long Form 540NR, line 45; Form 541, line 32; Form 100, Schedule J, line 5; Form 100S, Schedule J, line 5; Form 100W, Schedule J, line 5; Form 109, Schedule K, line 4; Form 565, Schedule K, line 22; or Form 568, Schedule K, line 22. In the space to the left of the line, write "FTB 3501" and the amount of credit recaptured.

Part II Employer Child Care Contribution Credit. Read the instructions before completing this part.

(a)	(b)	(c)	(d)	(e)
Name of employee's dependent	Contribution amount	30% of column (b), but not more than \$360	Number of weeks of care ÷ 42, but not more than 100%	Credit amount, column (c) x column (d)
1	\$	\$	%	\$
2				
3				
4				
5				
6				
7				
8				

Instructions for Form FTB 3501

Employer Child Care Program/Contribution Credit

General Information

The Employer Child Care Program Credit and the Employer Child Care Contribution Credit are extended to taxable years beginning before January 1, 2007.

Employer contributions **do not** include amounts contributed to a qualified care plan pursuant to a salary reduction agreement. See Part II, Employer Child Care Contribution Credit, C Definitions.

Purpose

Use form FTB 3501 to figure a credit if you are an employer and have established or contributed to a qualified employee child care program, constructed a child care facility in California, or contributed to California child care information and referral services.

Also, use form FTB 3501 to figure any recapture of the employer child care program credit and to claim pass-through employer child care program/contribution credits received from S corporations, estates or trusts, partnerships, or limited liability companies (LLCs) classified as partnerships.

S corporations, estates or trusts, partnerships, and LLCs classified as partnerships should complete form FTB 3501 to figure the credit to pass through to shareholders, beneficiaries, partners, or members. Attach this form to Form 100S, Form 541, Form 565, or Form 568. Show the pass-through credit for each shareholder, beneficiary, partner, or member on Schedule K-1 (100S, 541, 565, or 568).

Part I — Employer Child Care Program Credit

A Description

The amount of the credit allowed is 30% of costs you paid or incurred for establishing a child care program, or constructing a child care facility in California for use primarily by the children of your employees, the children of your tenants' employees, or both.

Two or more employers (other than a husband and wife) who share in the costs eligible for the credit may claim the credit in proportion to their respective share of the costs paid or incurred. When a husband and wife file separate returns, either spouse may claim the credit or each may claim half (50%) of the credit.

B Qualifications

Child Care Program Startup

You may claim this credit if you paid or incurred costs for the startup expenses of establishing a child care program or constructing child care facilities in California, and you either:

- Are an employer; or
- Own commercial or office space that you lease to an employer.

Information and Referral Services

You may also claim a credit for contributions to California child care information and referral services that:

- Identify local child care services;
- Offer information describing these resources to employees; and
- Refer employees to child care services where there are vacancies.

If a child care facility is established by two or more employers, the credit is allowed if the facility is to be used primarily by the children of the employees of each of the employers or the children of the employees of tenants of each of the taxpayers, or both.

Note: A credit is not allowed for the startup expenses of establishing a child care program or constructing a child care facility in California for an owner of a commercial building who is required by local ordinance to provide a child care facility.

C Definition of Startup Expenses

Startup expenses include, but are not limited to:

- Feasibility studies;
- Site preparation; and
- Construction, renovation, or acquisition of facilities for purposes of establishing or expanding on-site or near-site centers by one or more employers, or one or more building owners leasing space to employers.

D Limitations

The amount of credit generated for any taxable year is limited to \$50,000 (form FTB 3501, Part I, line 7). Any credit amount in excess of \$50,000 may not be claimed and cannot be carried over to succeeding years.

S corporations may claim only 1/3 of the credit against the 1.5% entity-level tax (3.5% for financial S corporations). Any of the 1/3 credit not used by the S corporation in the year it was generated can be carried over to succeeding years until exhausted. In addition, S corporations can pass through 100% (limited to \$50,000 annually at the S corporation level) of the credit to their shareholders.

If a taxpayer owns an interest in a disregarded business entity (a single member LLC [SMLLC] not recognized [disregarded] by California and for tax purposes treated as a sole proprietorship owned by an individual or a branch owned by a corporation), the credit amount received from the disregarded entity that can be utilized is limited to the difference between the taxpayer's regular tax figured with the income of the disregarded entity, and the

taxpayer's regular tax figured without the income of the disregarded entity.

An SMLLC may be disregarded as an entity separate from its owner, and is subject to statutory provisions that recognize otherwise disregarded entities for certain tax purposes.

Get Form 568, Limited Liability Company Return of Income, for more details.

Note: If the disregarded entity reports a loss, the taxpayer may not claim the credit this year, but can carry over the credit amount received from the disregarded entity.

This credit cannot reduce the minimum franchise tax (corporations and S corporations), the annual tax (limited partnerships, limited liability partnerships, and LLCs), the alternative minimum tax (corporations, exempt organizations, individuals, and fiduciaries), the built-in gains tax (S corporations), or the excess net passive income tax (S corporations). This credit cannot reduce regular tax below the tentative minimum tax (TMT). See Schedule P (100, 100W, 540, 540NR, or 541) for more information.

This credit is taken in lieu of any deduction otherwise allowable for the same costs. Therefore, any deduction allowed for the same costs or contributions must be reduced by the amount of credit claimed for the current taxable year (the amount shown on form FTB 3501, Part I, line 12).

The amount of credit you can claim on your tax return may be limited further (in addition to the annual limitation). Refer to the credit instructions in your tax booklet for more information. These instructions also explain how to claim this credit on your tax return. You must use credit code number **189** when you claim this credit.

Note: This credit is not refundable.

Corporate Members of a Unitary or Combined Group

This credit cannot be allocated or otherwise transferred to another taxpayer, even if the other taxpayer is a member of a unitary or combined group or otherwise affiliated with the taxpayer that earned the credit.

E Recapture

If the child care center is disposed of or stops operating within 60 months after completion, the portion of the credit claimed that represents the remaining portion of the 60-month period must be recaptured. You must add the recapture amount to your tax liability in the taxable year of disposition or nonuse. Figure any recapture amount in Part I, Section C.

Estates or trusts, partnerships, and LLCs classified as partnerships must identify the recapture amounts for their beneficiaries, partners, and members on Schedule(s) K-1

(541, 565, or 568). In addition, S corporations must identify recapture amounts for their shareholders on Schedule K-1 (100S), which will differ from the amount recaptured by the S corporation on Form 100S, Schedule J, line 5.

F Carryover

If the available credit exceeds your tax liability for the current taxable year, you may carry over the excess credit to succeeding years until exhausted.

If the available credit generated this year (limited to \$50,000) plus the credit carried over from a prior year, if any, exceeds \$50,000, you may carry over the amount in excess of \$50,000 to succeeding years.

Apply the carryover to the earliest taxable year(s) possible. In no event can this credit be carried back and applied against a prior year's tax.

G Basis and Depreciation

You must reduce the depreciable basis of the child care facility(ies) by the amount of the credit attributable to the facility(ies) in the taxable year the credit is allowed. You may elect to take depreciation in lieu of this credit, or you may depreciate the cost of the facility(ies) that exceeds the amount of the credit claimed.

Part II — Employer Child Care Contribution Credit

A Description

The amount of the credit allowed is 30% of costs you paid or incurred for contributions made to a qualified care plan on behalf of any of your California employee's dependents under the age of 12.

Two or more employers (other than a husband and wife) who share in the costs eligible for the credit may claim the credit in proportion to their respective share of the costs paid or incurred. When a husband and wife file separate returns, either spouse may claim the credit or each may claim half (50%) of the credit.

B Qualifications

You may claim this credit if you are an employer who made contributions to a qualified care plan for any of your California employees' dependents under the age of 12.

For purposes of this credit, self-employed individuals may also claim this credit if they make contributions to a qualified care plan for their dependents under the age of 12.

The credit is not available if the employee's dependent is in the care of a person who:

- Qualifies as a dependent of that employee or that employee's spouse; or
- Is a son, stepson, daughter, or stepdaughter of that employee and is under the age of 19 at the close of the taxable year.

C Definitions

Qualified care plan includes, but is not limited to:

- On-site service;
- Center-based service;
- In-home care;
- Home-provider care; or
- Dependent care specialized center.

Facilities must be located in California and operated under the authority of a license when required by state law.

Employer contributions include direct payments to child care programs or providers. Employer contributions **do not** include amounts contributed to a qualified care plan pursuant to a salary reduction agreement.

D Limitations

The amount of this credit cannot exceed \$360 per dependent in any taxable year.

If the child care received is less than 42 weeks, prorate the credit as indicated in Part II, line 1, column (d).

If you, as an employer, make contributions to a qualified care plan and also collect fees from parents to support child care facilities that you own and operate, the contributions available for figuring the allowable credit may be limited. If the sum of contributions and fees exceeds the total cost of child care, the contributions must be reduced by the amount in excess of cost.

S corporations may claim only 1/3 of the credit against the 1.5% entity-level tax (3.5% for financial S corporations). Any of the 1/3 credit not used by the S corporation in the year it was generated can be carried over to succeeding years until exhausted. In addition, S corporations can pass through 100% (limited to \$360 annually at the S corporation level) of the credit to their shareholders.

If a taxpayer owns an interest in a disregarded business entity, the credit amount received from the disregarded entity that can be utilized is limited. The limitation is the difference between the taxpayer's regular tax figured with the income of the disregarded entity, and the taxpayer's regular tax figured without the income of the disregarded entity.

Note: If the disregarded entity reports a loss, the taxpayer may not claim the credit this year, but can carry over the credit amount received from the disregarded entity.

This credit cannot reduce the minimum franchise tax (corporations and S corporations), the annual tax (limited partnerships, limited liability partnerships, and LLCs), the alternative minimum tax (corporations, exempt organizations, individuals, and fiduciaries), the built-in gains tax (S corporations), or the excess net passive income tax (S corporations). This credit cannot reduce regular tax below TMT. See Schedule P (100, 100W, 540, 540NR, or 541) for more information.

This credit is taken in lieu of any deduction otherwise allowable for the same costs. Therefore, any deduction allowed for the same costs or contributions must be reduced by the amount of credit claimed for the current taxable year (the amount shown on Part II, line 7).

The amount of this credit you can claim on your tax return may be limited further. Refer to the credit instructions in your tax booklet for more information. These instructions also explain how to claim this credit on your tax return. You must use credit code number **190** when you claim this credit.

Note: This credit is not refundable.

Corporate Members of a Unitary or Combined Group

This credit cannot be allocated or otherwise transferred to another taxpayer, even if the other taxpayer is a member of a unitary or combined group or otherwise affiliated with the taxpayer that earned the credit.

E Carryover

If the available credit exceeds your tax liability for the current taxable year, you may carry over the excess credit to succeeding years until exhausted.

Apply the carryover to the earliest taxable year(s) possible. In no event can this credit be carried back and applied against a prior year's tax.

F Basis

When you claim this credit for contributions to a qualified care plan used at a facility(ies) that you own, reduce the depreciable basis of the facility(ies) by the amount of the credit in the taxable year the credit is allowed.